

Message Text

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ACTION COME-00

INFO OCT-01 EA-12 EB-08 ISO-00 STRE-00 CTME-00 TRSE-00
AGRE-00 ITC-01 STR-07 /029 W
-----009523 210909Z /10
P 210735Z JUN 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 8997

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PASS COMMERCE FOR BIEPR/BUSSINGER

ALSO PASS STR ELECTRONICALLY

USMTN

GENEVA

E.O. 11652: NA
TAGS: ETRD, JA, MTN
SUBJECT: TRADE FACILITATION COMMITTEE: FILTRONA
INTERNATIONAL CORPORATION
REF: (A) STATE 154827, (B) GENEVA 9111, (C) TOKYO 10852,
- (D) TOKYO 10094, (E) STATE 121685, (F) TOKYO 6432,
- (G) TOKYO 6068

1. SUMMARY: GOVERNMENT TOBACCO MONOPOLY, JAPAN TOBACCO
AND SALT CORPORATION (JTS) PROCURES CIGARETTE FILTERS
THROUGH DOMESTIC SUPPLIERS BECAUSE, JTS OFFICIALS INSIST,
IMPORTED FILTERS DO NOT MEET EXACTING JTS STANDARDS.
CURRENT JTS PROCUREMENT REGULATIONS ARE NOMINALLY NON-
DISCRIMINATORY ALTHOUGH DOMINANT JTS SHAREHOLDER INTEREST
IN DOMESTIC FILTER INDUSTRY PROVIDES STRONG COMMERCIAL
MOTIVE FOR CURRENT PROCUREMENT OF JAPANESE-MADE
FILTERS. EMBASSY SEES THE ISSUE AS PRIMARILY STATE TRADING
CONDUCTED IN A MANNER NOT IN ACCORD WITH GATT ARTICLE XVII:1.
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THAT IS JTS'S BENEFICIAL OWNERSHIP INTERESTS IN DOMESTIC
INDUSTRY CREATE A SITUATION ENCOURAGING DE FACTO
DISCRIMINATION AGAINST IMPORTS. WE RECOMMEND CONTINUING
ACTION IN MTN ON GOVERNMENT PROCUREMENT SIDE, KEEPING
UP PRESSURE IN TFC, AND INITIATING NEGOTIATIONS UNDER
GATT ARTICLE XVII:3. WE NOTE THAT FILTRONA COMPETITORS
HAVE LICENSED TECHNOLOGY TO JTS, BUT ASSUME THAT DEPART-

MENT HAS ALREADY DETERMINED THAT ACTION ON FILTRONA BEHALF TO SUPPORT DIRECT EXPORTS IS APPROPRIATE.
END SUMMARY.

2. JTS PROCUREMENT POLICIES AND REGULATIONS: JTS IS A SEMI-GOVERNMENT ORGANIZATION, AND THEREFORE NOT LEGALLY BOUND BY PROCUREMENT LAW AND REGULATIONS FOR GOJ MINISTRIES AND AGENCIES. (SEE TOKYO 5273 PARA 6-8.) HOWEVER, JTS IS ADMINISTERED BY THE FINANCE MINISTRY AND, LIKE MOST GOJ SEMI-GOVERNMENTAL ORGANIZATIONS, HAS ADOPTED THE PROCUREMENT REGULATIONS OF THE ADMINISTERING MINISTRY. CURRENT GOJ PROCUREMENT REGULATIONS ARE NOMINALLY NON-DISCRIMINATORY: SPECIFIC "BUY JAPANESE" PROVISIONS INTRODUCED IN 1963 WERE REMOVED IN 1972. (GOJ PROCUREMENT REGULATIONS ARE SUMMARIZED IN TOKYO 5932.)

3. JAPAN TOBACCO AND SALT CORPORATION (JTS) PROCUREMENT DEPARTMENT MATERIALS DIVISION OFFICIALS CONFIRM JTS PURCHASES ALL CELLULOSE ACETATE CIGARETTE FILTERS FROM FOUR DOMESTIC PRODUCERS. JTS, AS THE GOJ CIGARETTE PRODUCTION AND MARKETING MONOPOLY, IS THE SOLE JAPANESE MARKET FOR FILTER PRODUCERS.

4. JTS PROCUREMENT DEPARTMENT MATERIALS DIVISION OFFICIALS STRESS THAT THE REASON WHY JTS DOES NOT BUY FILTRONA
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FILTERS IS, THEY SAY, FILTRONA SCS FILTERS TESTED DID NOT MEET EXACTING JTS SIZE REQUIREMENTS FOR HIGH SPEED PRODUCTION FACILITIES. THIS IS SO-CALLED WRINKLE ISSUE DUE TO FILTERS WRINKLING IN PRODUCTION PROCESS AND JAMMING ASSEMBLY EQUIPMENT.

5. THE CELLULOSE ACETATE CIGARETTE FILTER MARKET IN JAPAN IS TIGHTLY BOUND BY DOMINANT JTS SHAREHOLDER INTEREST AND COMPLEX LICENSING AGREEMENTS BETWEEN THE FILTER PRODUCERS, THE RAW MATERIAL SUPPLIERS, AND TWO AMERICAN LICENSORS, CELANESE AND EASTMAN KODAK.

6. THE THREE SUCCESSIVE STEPS IN THE MANUFACTURE OF FILTERS ARE: 1) MANUFACTURE OF CELLULOSE ACETATE FLAKES, 2) MANUFACTURE OF DIACETATE TOW, 3) MANUFACTURE OF THE FILTER, OR "PLUG". THE SOLE MANUFACTURER OF FLAKES IN JAPAN IS DAICEL, K.K., OPERATING UNDER LICENSE FROM EASTMAN KODAK. DIACEL ALSO MANUFACTURES TOW, ALSO UNDER LICENSE FROM KODAK. A SECOND TOW MANUFACTURER, MITSUBISHI ACETATE CO., LTD., BUYS ITS FLAKES FROM DIACEL AND MANUFACTURES TOW UNDER LICENSE FROM CELANESE. DAICEL AND MITSUBISHI ACETATE BOTH SELL TOW TO THE FOUR

FILTER MAKERS LISTED PARA 7. ALL FOUR FILTER MAKERS
MANUFACTURE PLUGS UNDER LICENSE FROM KODAK.

7. JTS IS A MAJOR SHAREHOLDER IN THE FOUR FACTORIES
PRODUCING CELLULOSE ACETATE FILTERS IN JAPAN.

FACTORY NAME	PERCENT JTS OWNERSHIP
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NIHON FILTER	72.8
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OSAKA FILTER	42.9
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KYUSHU FILTER	48
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TOHOKU FILTER	(LISTED AS MAJOR SHAREHOLDER
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- BUT PERCENT SHARE NOT

- AVAILABLE.)

8. DAICEL AND MITSUBISHI ACETATE HOLD THE FOLLOWING
PERCENTAGE SHARES OF THE FILTER COMPANIES:

FACTORY	DAICEL	mitsubishi acetate
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NIHON FILTER	6.2	6.2
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OSAKA FILTER	21.4	--
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KYUSHU FILTER	21.4	30.6
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TOHOKU FILTER (MAJOR SHAREHOLDER (MAJOR SHAREHOLDER
- BUT PERCENT UNLISTED) BUT PERCENT
- UNLISTED)

9. JTS OWNERSHIP POSITION IN THE FOUR DOMESTIC FILTER
PRODUCERS AND THE LICENSING AGREEMENTS BETWEEN THE FILTER
PRODUCERS, RAW MATERIAL SUPPLIERS, AND AMERICAN TECHNOLOGY
LICENSORS PROVIDES STRONG COMMERCIAL MOTIVE FOR JTS'S
FILTER PROCUREMENT FROM DOMESTIC SOURCES.

10. COMMENT: IN RESPONSE TO EMBASSY QUESTIONS ABOUT
CIGARETTES (REFTELS D, F, G), CIGARS (REF C), AND CIGARETTE
FILTERS JTS OFFICIALS CONTINUE TO INSIST JTS PROCUREMENT
AND MARKETING POLICIES ARE NON-DISCRIMINATORY AND WITHIN
JTS LEGAL MANDATE AS GOVERNMENT TOBACCO MONOPOLY. OUR
EXPERIENCE IN PREPARING TRADE FACILITATION COMMITTEE
CASES ON THESE THREE PRODUCTS LEADS US TO CONCLUDE THAT
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THE BASIC ISSUE IS NOT JTS PROCUREMENT PER SE, BUT RATHER,
IS JTS'S MONOPOLY POSITION AS THE SOLE PRODUCER AND
WHOLESALE DISTRIBUTOR OF TOBACCO PRODUCTS WITHIN JAPAN.
JTS TREATMENT OF FOREIGN TOBACCO PRODUCTS IS
EXPLAINED BY ITS OWN COMMERCIAL INTERESTS.

11. SENIOR POLICY MAKERS IN JTS GENERALLY ARE RETIRED
OFFICIALS OF FINANCE MINISTRY WHOSE ATTITUDES WERE FORMED
IN THE DAYS WHEN JAPANESE CIGARETTES WERE SUBSTANTIALLY
INFERIOR TO AND COULD NOT COMPETE IN ANY OPEN MARKET
WITH U.S. MANUFACTURED CIGARETTES. THESE OFFICIALS UN-
DOUBTEDLY FEAR THAT ANY SUBSTANTIAL LIBERALIZATION AND
OPENING OF THE JAPANESE TOBACCO PRODUCTS MARKET TO
FOREIGN COMPETITION WOULD HAVE AN IMMEDIATE AND DIRECT
ADVERSE IMPACT UPON JAPANESE EMPLOYMENT, AGRICULTURE AND
REVENUE INTERESTS.

12. IN THIS SITUATION THE AMOUNT OF PRESSURE WHICH CAN
BE APPLIED EITHER THROUGH THE TRADE FACILITATION COMMITTEE
OR BY "INTERNATIONALIZED" GOJ AGENCIES THINKING OF THE
TRADE SURPLUS AND POSSIBLE FOREIGN REACTION THERETO, CAN
BE ONLY OF LIMITED EFFECTIVENESS UNLESS STRONGLY REIN-
FORCED FROM OUTSIDE. IT WILL TAKE A LOT OF SCRUBBING
TO CHANGE THE SPOTS ON THIS PARTICULAR LEOPARD. WHILE
EMBASSY HAS NO OBJECTION TO SUBMITTING TFC CASE ON
CIGARETTE FILTERS (WITHOUT, HOWEVER, KEEPING ANY SCORE
FOR THIS INNING), WE BELIEVE OUR LONG RUN INTERESTS STAND
A BETTER CHANCE OF POSITIVE REALIZATION IF THE MONOPOLY
ISSUE CAN BE RAISED AS A STATE TRADING CASE UNDER ARTICLE
17 OF THE GATT. THE DEPARTMENT MAY WISH TO CONSIDER
WHETHER ARTICLE 17 NEGOTIATIONS SHOULD BE REQUESTED.
(SEE REF B PARA 8.) A THREE-FRONT ATTACK MAY BE USEFUL

TO DEMONSTRATE OUR CONCERN:

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- (1) CONTINUE TO DISCUSS AS GOVERNMENT PROCUREMENT
- ISSUE IN MTN;
- (2) PROCEED WITH ARTICLE 17 PROCESS; AND
- (3) CONTINUE TO APPLY PRESSURE THROUGH TFC.

IF WE ARE SUCCESSFUL IN PERSUADING JTS TO IMPORT FILTRONA FILTERS, ONE LOGICAL RESULT MIGHT BE LESSER USE OF FILTERS PRODUCED UNDER KODAK AND CELANESE TECHNOLOGY TO THE POSSIBLE DETRIMENT OF THOSE FIRMS' INTERESTS. WE ASSUME THAT WASHINGTON AGENCIES HAVE CONSIDERED THE POSSIBILITY THAT COMPETITION AMONG U.S. FIRMS MAY BE INVOLVED IN SOME TFC CASES, AND HAVE DETERMINED THAT SUPPORT OF DIRECT EXPORTS BY FILTRONA IS APPROPRIATE.

MANSFIELD

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Message Attributes

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